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SUBJECT: South China's High-Tech Zones Struggling to Attract New
Companies to the Region

REF: Guangzhou 406

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1. (U) Summary: If you build it and offer the right package of incentives, they might come. Then again, they might not. Those that do might have been coming anyway. It's not exactly gambling south China style, but the "build it and see what happens" mentality that sometimes infuses the creation of these zones certainly has a high element of risk. The high-tech zones in the Pearl River Delta (PRD) are clearly part of the government's strategy to reorient the PRD's economy away from labor-intensive/energy inefficient industries to high-tech, finance-oriented services. While some of these zones are faring well, others are struggling; they are simply trying to maximize revenues and turn unused land into high rent apartment complexes. Still, even the apparently successful zones appear to be cannibalizing other areas of Guangdong, rather than attracting new high-tech industry. End Summary.

2. (U) Eager to upgrade south China's industrial base, the central and local governments have adopted various policies to encourage the creation of high-tech enterprises -- principal among these are the development zones that dot the landscape in Guangdong province. There are ten large national-level economic and high-tech zones and dozens of smaller ones sponsored by municipal governments. These zones all offer tax and other incentives to the companies they want to attract; the idea is that by bringing different high-tech companies to the same area, the zones will develop into centers of innovation, on the model of California's Silicon Valley.

3. (SBU) The zones have so far experienced mixed success. Some, like the Guangzhou Development District (GDD), a sprawling area located about 20 kilometers east of downtown Guangzhou, have managed to attract scores of Fortune 500 companies. Others, such as Dongguan's Songshan Lake, have struggled. According to Sung-Rak Choi, the Korean CEO of Iriver (China), a manufacturer of consumer electronics with a factory in Songshan, the Dongguan zone has been a great disappointment, with utilization of just 30% of its available space. After a recent visit to the zone, located near the highway connecting Guangzhou with Shenzhen, Guangdong Party Secretary Wang Yang was quoted as saying that Songshan "has a favorable environment but very little content."

4. (SBU) According to Dr. Lu Jun, the chair of Sun Yatsen's Department of Finance, zones like Songshan have struggled because most of the PRD lacks the resources and infrastructure necessary to develop high-tech industries. Lu believes that in the short-term it

will be very difficult to attract high-tech enterprises to south China if they aren't already based in the area. The experience of Songshan reflects this, according to Iriver's Choi, who told us that every single major company in the development zone already had a manufacturing plant elsewhere in the PRD.

15. (SBU) Some of our contacts argued that the zones contributed little to the development of high-tech industry in south China because they were competing primarily with other zones and communities in the PRD. Choi told us that Iriver considered 10 different development zones in Guangdong. Choi also told us that Songshan and GDD had a "bidding war" when competing to attract the LG-Philips LCD manufacturing plant that was ultimately built in the GDD. Choi said that incentives offered by the zones might lead a company to choose one over another, but most companies looking at the zones had already decided to move to south China and were at that point simply shopping for the best deal.

16. (SBU) In some cases, it appears that the development in the zones is little more than a mailing address that confers tax benefits. According to Lin Qicai, a consultant at Guangzhou Zhengyi Enterprise Management Consulting, which advises companies seeking to invest in the GDD, many companies register in the GDD to take advantage of incentives offered by the zone but never establish much of a physical presence there. Lin told us that as many as 100 companies, or more than 80% of the enterprises making up the GDD's Free-Trade Zone, registered in the GDD solely for the tax incentives they received. (Note: the Free-Trade Zone is one of the four zones that make up the GDD. End note.) Lin said that these companies maintained only small offices in the zone and conducted the bulk of their operations elsewhere in the PRD. He further commented that

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GDD's management was well aware of this but didn't care as long as the companies continued to provide tax revenue to the zone.

17. (SBU) Perhaps in desperation, Songshan has turned to real estate development in recent years -- a move that Iriver's Choi says is due as much to a lack of alternatives as to any coherent strategy. Dozens of high-rise apartment buildings are springing up in the southern side of the zone, although when Congenoff visited in late June, few if any of them appeared to have been finished. According to press reports, the apartments were all quickly sold when they were put on the market in 2006, and the real estate developments now provide the zone with much of its tax revenue. Choi commented that he thinks the apartments were almost all purchased by speculators who don't actually intend to move to Songshan.

18. (U) Comment: The success of development zones like GDD and Songshan in cultivating high-tech industries in south China is mixed at best. GDD is having some success in attracting large multi-national companies (MNCs), but it seems to be doing so primarily at the expense of other development zones and even downtown Guangzhou. In addition, the principal goal of zone management -- to maximize tax revenue -- does not seem to be entirely aligned with the provincial government's goal of attracting new high-tech investment to the PRD.

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